



Brown University  
October 10, 2012

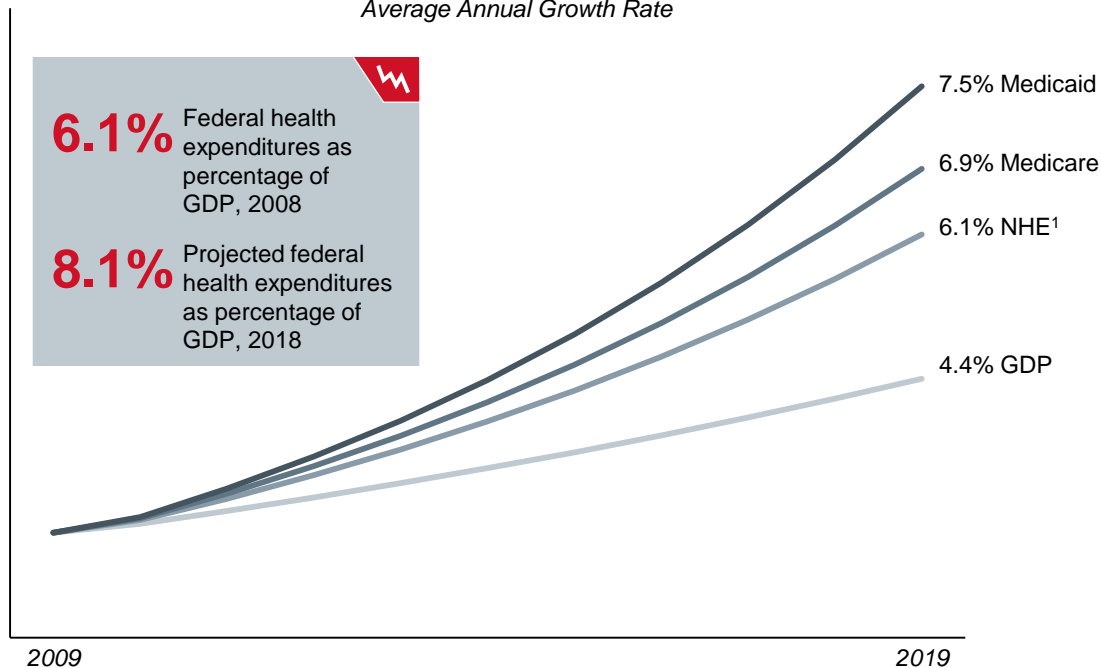
# Health Care 2020

*Toward a Value-Driven Payment and Delivery Model*

# At the Heart of the Federal Budget Debate

## Projected Health Care Spending

*Average Annual Growth Rate*

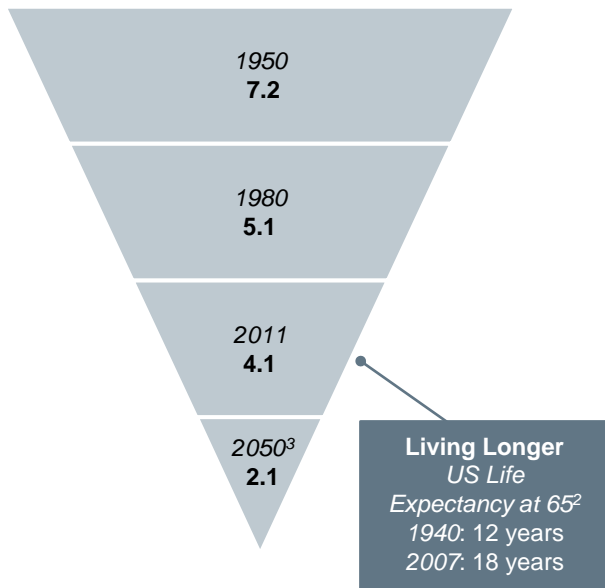


1) National Health Expenditure.

# The Looming Demographic Conundrum

## Aging Beyond Our Ability to Support

Number of People 20-64 for Every Person >65<sup>1</sup>



**623 K** New Medicare beneficiaries each year 1995-2010

**1.6 M** New Medicare beneficiaries each year 2010-2030

**2X** In 2030, Medicare will have twice as many beneficiaries as 2010

1) Organization for Economic Cooperation and Development (OECD) average.

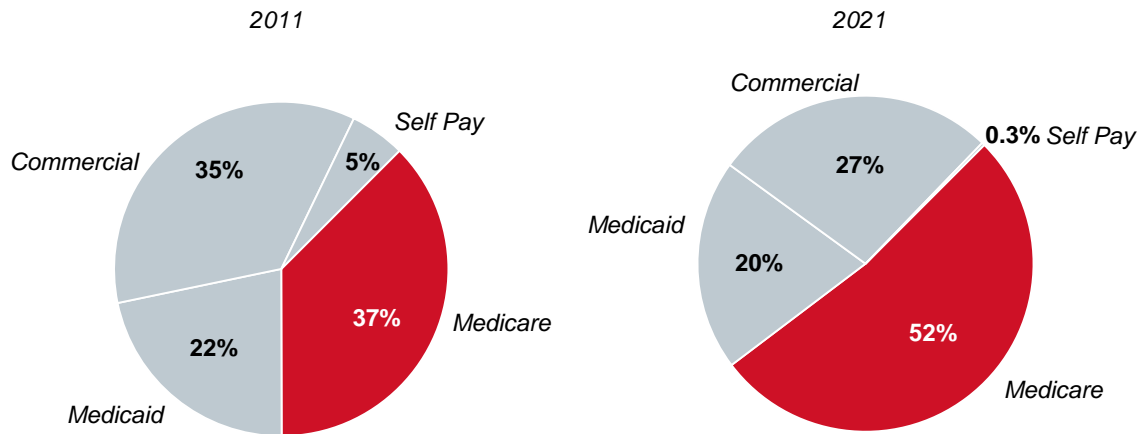
2) Males.

3) Projected.

# Coming Wave of Medicare Inpatients

Medicare to Constitute a Majority of Discharges by 2021

**Inpatient Volume by Payer Class**

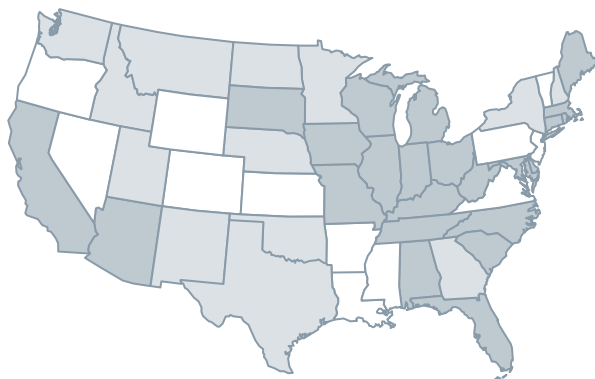


# A Population More Predisposed to Comorbidity

## Worsening Case Mix Not Just Due to Aging

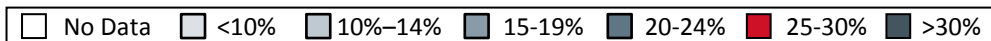
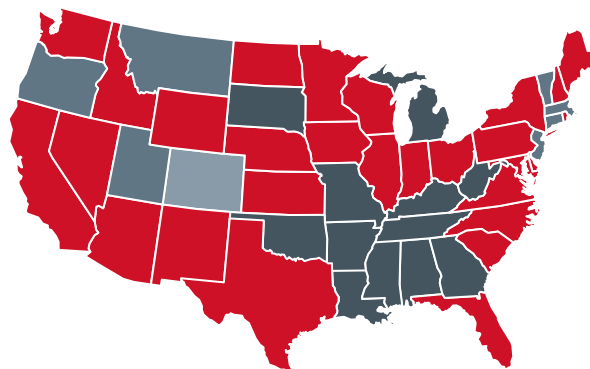
**Obesity Rate Among U.S. Adults<sup>1</sup>**

1988



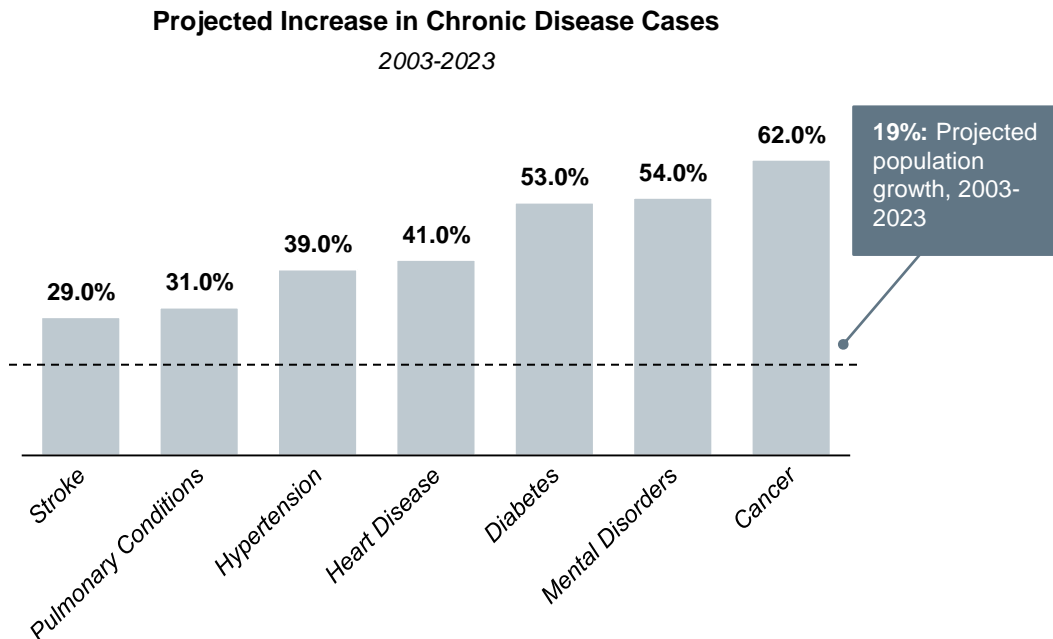
**Obesity Rate Among U.S. Adults<sup>1</sup>**

2009



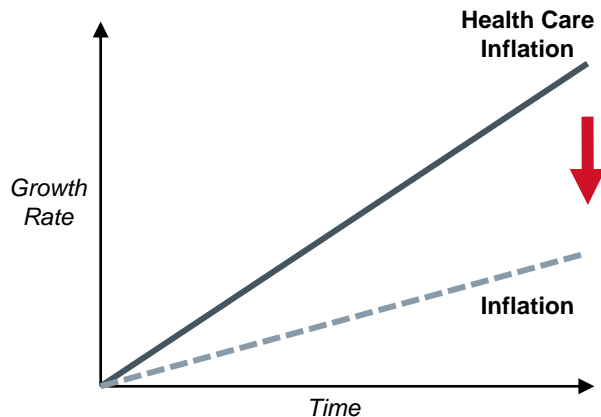
<sup>1</sup>) Body Mass Index  $\geq 30$ , or 30 pounds overweight for 5' 4" person.

# Chronic Disease Growth Outpacing Population Growth



# Looking to Put Health Care on a Budget

## Three Manifestations of Health Care on a Budget



Federal Budget Framework

2



Budgeting in the Private Market

3



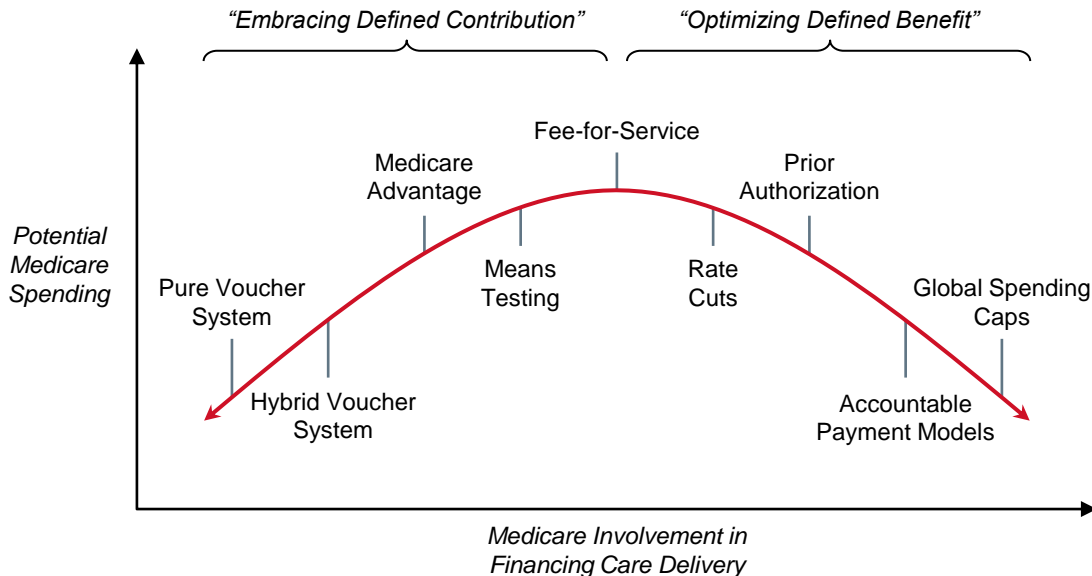
Individuals on a Budget

# Unable to Remain Stuck in the Middle

## Medicare Evolution Necessary—But in Which Direction?

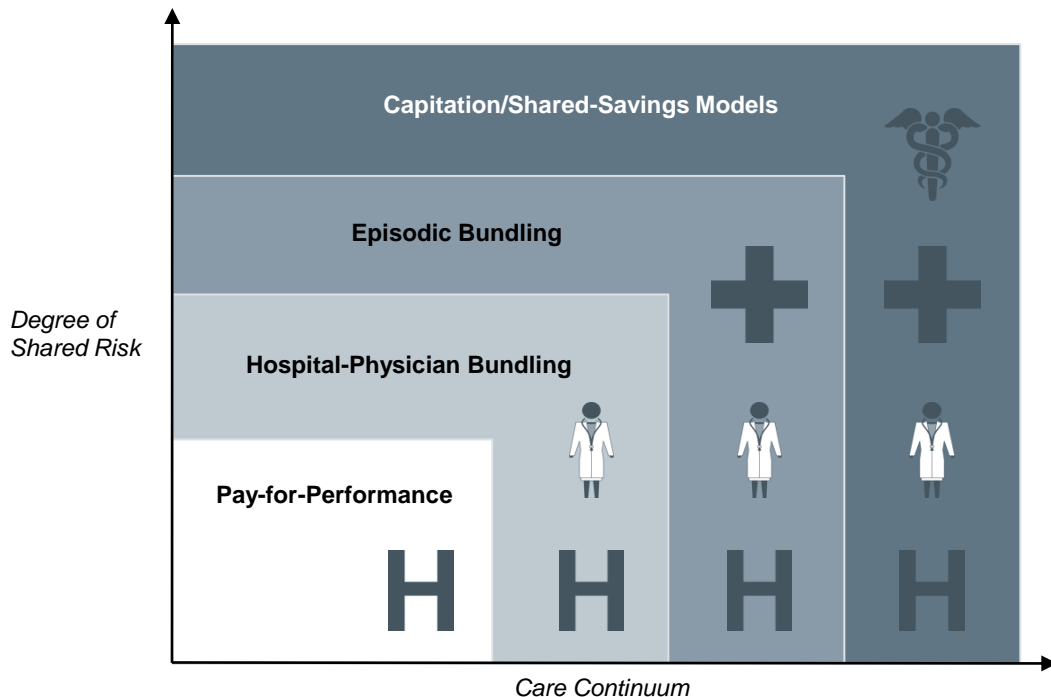
### Medicare Benefits Spectrum

*Possible Future Scenarios*



# Shifting Risk and Accountability to Providers

Providing an Incentive to Remake the Delivery System



# How Much Does the 2012 Election Matter?

## Broad Agreement on Need to Bend the Cost Curve—But How?



	Obama	Romney/Ryan
<b>Medicare Model</b>	<ul style="list-style-type: none"> <li>• Maintain defined-benefit model<sup>1</sup></li> <li>• Introduce risk-based contracts</li> <li>• Encourage development of new care models</li> </ul>	<ul style="list-style-type: none"> <li>• Repeal entirety of Affordable Care Act</li> <li>• In 2022, transition to defined contribution model with competitive bidding to determine support levels<sup>2</sup></li> <li>• Continue to offer traditional Medicare as option</li> <li>• Promote alternatives to fee-for-service reimbursement</li> </ul>
<b>Medicare Spending</b>	<ul style="list-style-type: none"> <li>• Enact the following cuts over next ten years:               <ul style="list-style-type: none"> <li>◦ \$415 billion to hospitals, physicians</li> <li>◦ \$156 billion to Medicare Advantage</li> <li>◦ \$56 billion to DSH<sup>3</sup> payments</li> </ul> </li> <li>• Limit program cost growth to nominal GDP plus one percent through cuts to hospital, provider reimbursement</li> </ul>	<ul style="list-style-type: none"> <li>• Repeal all Medicare cuts over next ten years (likelihood determined by Congressional election outcomes)</li> <li>• Reduce Medicare spending beyond 2022</li> <li>• Limit program cost growth to nominal GDP plus one percent through market-based incentives (higher cost plans require greater out-of-pocket spending)</li> </ul>
<b>Medicaid</b>	<ul style="list-style-type: none"> <li>• Increase eligibility in states participating in Medicaid expansion</li> <li>• Ensure benefits meet exchange benchmarks</li> </ul>	<ul style="list-style-type: none"> <li>• Combine federal Medicaid, other health spending into single block grant to states</li> <li>• Limit federal requirements on Medicaid coverage</li> </ul>
<b>Commercial</b>	<ul style="list-style-type: none"> <li>• Provide individual, small business subsidies for exchange-based plans</li> <li>• Enact coverage mandates</li> <li>• Maintain minimum coverage requirements</li> </ul>	<ul style="list-style-type: none"> <li>• Encourage individuals, small businesses to form purchasing pools</li> <li>• Provide tax credit for purchase of individual coverage</li> <li>• Allow purchase of insurance across state lines</li> </ul>

1) Defined Benefit: The government procures medical goods and services for consumers, as determined by the physician.

2) Defined Contribution: The consumer is provided a monetary payment, but is responsible for procuring medical care.

3) Disproportionate Share Hospital.

Source: US Senate, "The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act," February 19, 2010; Center on Budget and Policy Priorities, Federal Budget Reports, March 20, 2012; Congressional Budget Office, Letter from Douglas Elmendorf to John Boehner, July 24, 2012.; Mitt Romney's Health Care Plan, available at:

<http://www.mittromney.com/issues/health-care>, accessed August 20, 2012.; Health Care Advisory Board interviews and analysis.

# Elevating the Value of the Existing Benefit

## Strategies to Elevate the Value of the Benefit



### **Value-Based Benefit Design**

- Increase beneficiary cost-sharing
- Link decision-making to value, cost of provider

### **Accelerated Value-Based Purchasing**

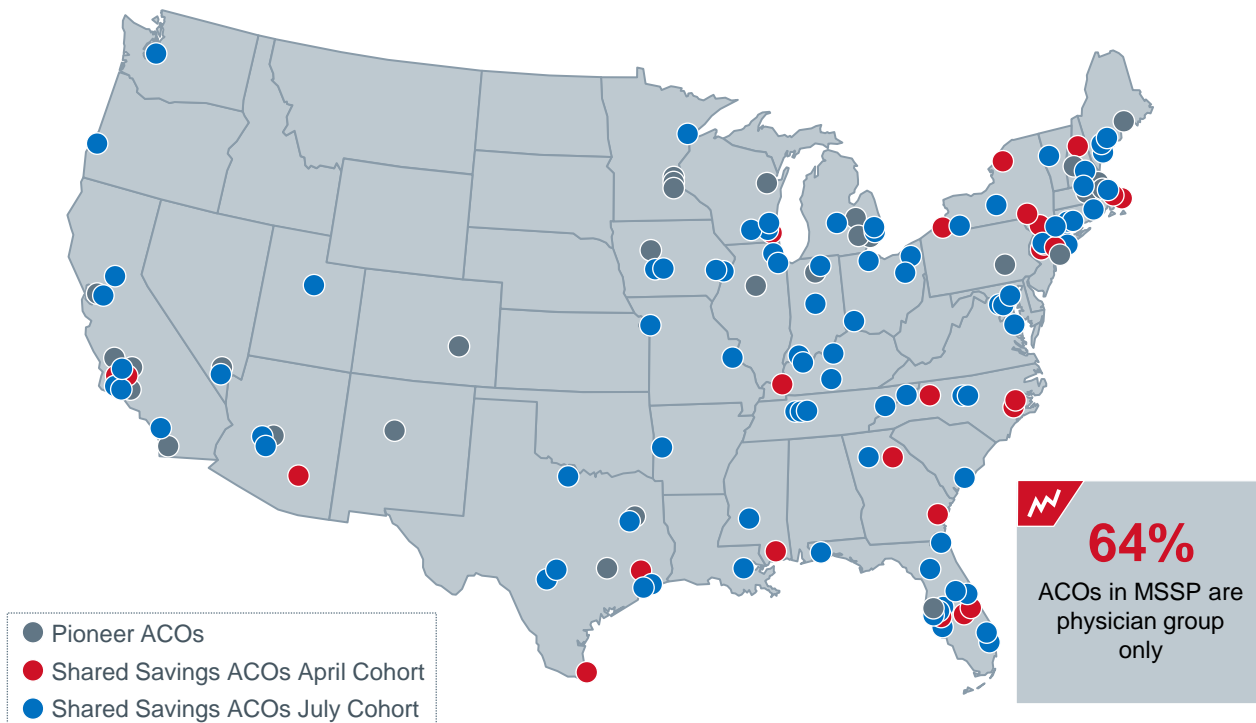
- Expand metrics
- Increase provider reporting requirements
- Increase focus on patient experience

### **Delivery System Reform**

- Reduce cost of broader care episodes
- Continue experiments in shared risk models

# Medicare ACOs Off and Running

Providers Eying Opportunities to Evolve Beyond Fee-for-Service



# Assembling a Delivery System to Manage Risk

## Laying the Groundwork for “Accountable Care”

### Physician Alignment



- Explore opportunities to leverage either extensive physician employment or Clinical Integration as initial physician performance platforms
- Analyze ACO antitrust eligibility requirements beyond traditional strategies

### Information-Powered Care



- Invest in infrastructure required for ACO core competencies, including interconnectivity, patient activation, population risk management
- Design IT strategy that exceeds Meaningful Use requirements, focuses on analytics to unlock power of digital data

### New Clinical Model

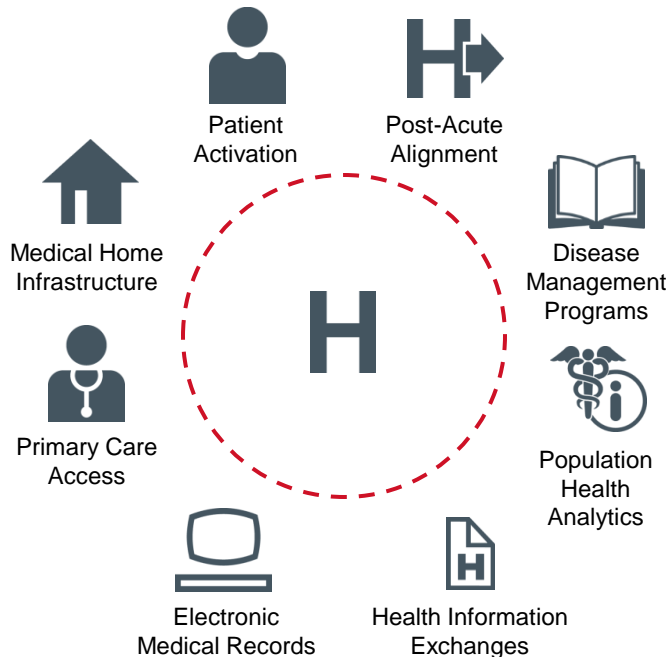


- Build comprehensive ambulatory network to address medical demand, including investments in post-acute alignment, disease management, primary care access
- Consider medical home as primary strategy for medical management

# Establishing the Medical Perimeter

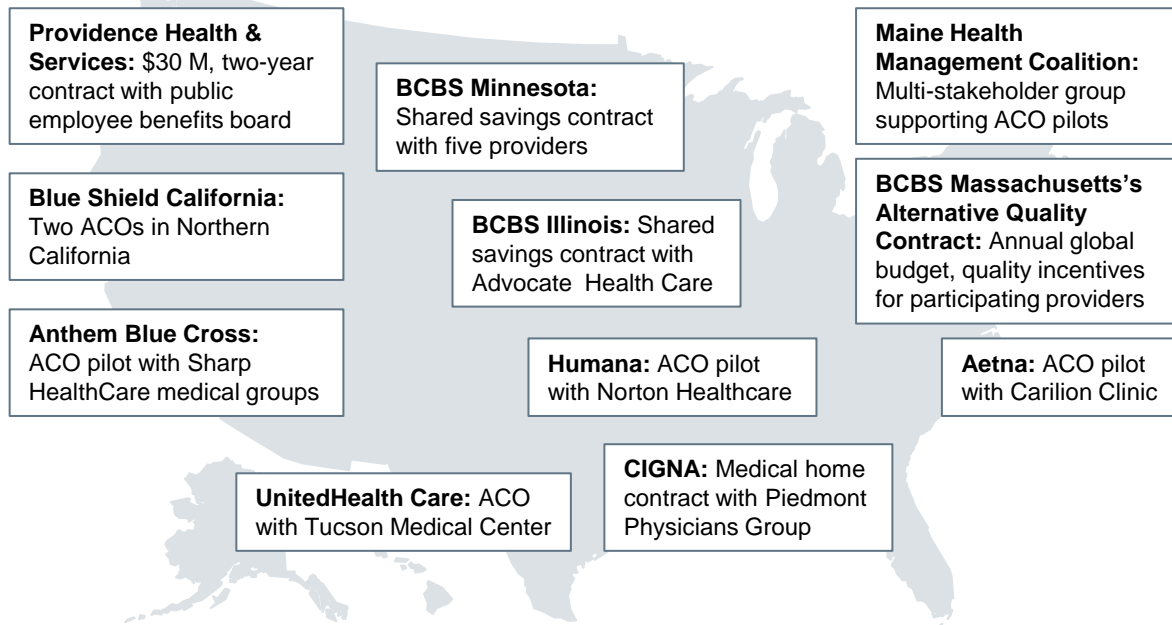
## Extensive Ambulatory Care Network to Mitigate Medical Demand

### Medical Management Investments



# Driving Innovation in the Commercial Market

## Commercial Insurers Following Medicare's Lead



Source: "Anthem Blue Cross, Sharp HealthCare Pilot San Diego-Area ACO," available at: [www.healthcarefinancenews.com](http://www.healthcarefinancenews.com); "Norton Healthcare, Humana Launch ACO Pilot," "Aetna, Carilion Clinic Building ACO in VA," available at [www.healthleadersmedia.com](http://www.healthleadersmedia.com); "An ACO Takes Root in San Francisco," available at: [www.chwhealth.org](http://www.chwhealth.org); "8 Aspects of UnitedHealthcare's Plans to Fund an ACO at Tucson Medical Center," available at: [www.beckershospitalreview.com](http://www.beckershospitalreview.com); "Advocate Health Care, Blue Cross and Blue Shield of Illinois Sign Agreement Focusing on Improving Quality, Bending the Health Care Cost Curve," available at: [www.bcbsil.com](http://www.bcbsil.com); "Minnesota's Largest Health Plan Signs 'Total Cost Of Care' Agreement With Park Nicollet Health Services," available at: [www.bcbs.com](http://www.bcbs.com); "BCBS Massachusetts Announces First Year Results of Alternative Quality Contract," available at: [www.bluecrossma.com](http://www.bluecrossma.com); "CIGNA and Piedmont Physicians Group Launch Accountable Care Organization Pilot Program," available at: [newsroom.cigna.com](http://newsroom.cigna.com); Maine Health Management Coalition, available at: [www.mehmc.org](http://www.mehmc.org); Health Care Advisory Board interviews and analysis.

# Cooperating to Deliver Distinctive Offerings

## Newly Formed Payer-Provider Partnerships

**Blue Shield, Hill Physicians  
Medical Group, AllCare IPA**  
*Blue Groove*  
Premium reduction: 10%

**Steward Health System,  
Tufts Health Plan**  
*Steward Community Choice*  
Premium reduction: 15-30%

**Fairview Health, Medica**  
*Fairview Health Advantage with Medica  
(defined contribution plan for businesses)  
Harmony with Medica and Fairview  
(individuals)*

**MedStar Health,  
Evolution Health**  
*Supporting population  
management strategies*

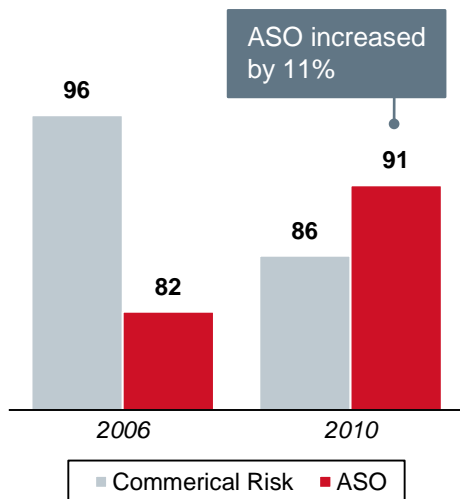
**Banner Health,  
Health Net**  
*ExcelCare*  
Premium reduction: 20%

**Carilion Clinic, Aetna**  
**Banner Health, Aetna**  
*Aetna Whole Health*  
Premium reduction: 30%

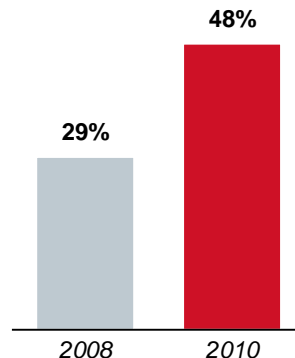
Source: Aetna, available at: [www.aetna.com](http://www.aetna.com), Banner Health, available at: [www.bannerhealth.com](http://www.bannerhealth.com), Blue Groove, available at: <http://www.fiercehealthpayer.com/story/blue-shield-grooves-value-based-plan-cut-premiums/2012-01-10>, Fairview/Medica, available at: <http://www.startribune.com/business/141693483.html>, Evolent Health, available at: [www.evolenthealth.com](http://www.evolenthealth.com); Health Care Advisory Board interviews and analysis.

# Spurred By a More Activist Employer Market

**Employees Covered by ASO<sup>1</sup>  
Versus Fully Insured Agreements**



**Percentage of Smaller  
Employers Self-Insuring<sup>2</sup>**



1) Administrative services organization.

2) Firms with 1,000 or fewer employees.

Source: Mark Farrah Associates, "ASO Products for Self-Insured Companies Continue to Surpass Fully-Insured Options," available at: <http://www.markfarrah.com/healthcarebs.asp?article=89>, accessed April 2011; Stuart A. "A Lesson in Self-Reliance," *CFO Magazine*, July 14, 2010; Health Care Advisory Board interviews and analysis.

# Pushing Past Traditional Benefit Design

## Narrow Networks



- Negotiates discounts of 20%-40% less than commercial rate
- Uses predictive modeling to identify high-risk employees
- Educates employee population about alternatives to surgery
- Sells network access, services to reduce surgical demand directly to employers

## Targeted Interventions



"We've Got Your Back"

- Program offered in groups at Chrysler headquarters; 200 employees with back pain initially targeted
- Uses occupational therapy and relaxation techniques to mitigate pain
- 55% of Employees reporting no pain following program completion

## On-Site Care



- Over 360 employer campuses currently have Walgreens clinics on-site
- Option to customize wellness, health care service offerings based on specific needs
- On-site clinic minimizes employee absenteeism
- Walgreens reports ROI ranging from 60%-100%



### Case in Brief: BridgeHealth

- Surgery benefits firm based in Denver, Colorado
- Aggregates high-quality providers to create virtual narrow networks for specific surgical procedures



### Case in Brief: Chrysler/HFHS

- Chrysler partnered with Henry Ford Health System in 2007 to offer program designed to eliminate widespread, chronic lower-back pain, minimize work absenteeism



### Case in Brief: Walgreens

- Largest U.S. drugstore chain
- Through purchase of a health management company, formed subsidiary to offer branded worksite health clinics

# An Exit Ramp for Employers?

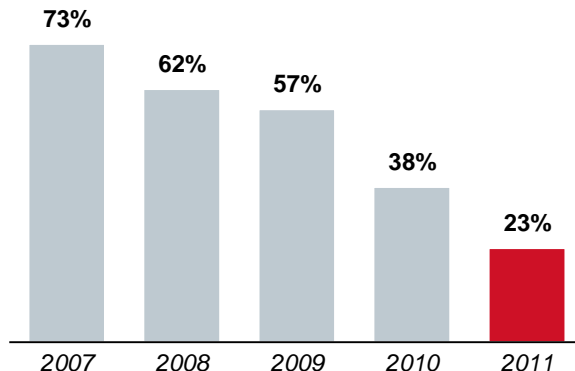
## Health Insurance Exchanges Taking Shape Nationwide

### Percent of Employers Predicted to Keep or Drop Health Coverage

Source	Estimate
RAND <sup>1</sup>	8.7% ↑
Urban Institute	(0-2%) ↓
CBO <sup>2</sup>	(2-3%) ↓
Mercer <sup>3</sup>	(3-20%) ↓
McKinsey & Co.	(30%) ↓

### Employers “Very Confident” Health Benefits Will Be Offered At Their Organization a Decade From Now

2011



- 1) Economic modeling, through 2016; due to employee demand driven by individual penalties for being uninsured and availability of lower-cost insurance options.
- 2) Congressional Budget Office; after 2014.
- 3) In November 2010 survey of 2,800 employers released by Mercer: 3% of employers >10,000 employees planned to drop coverage, 6% of employers >500 employees planned to drop coverage, and 20% of employers with 10-499 employees planned to drop coverage.

Source: The Henry J. Kaiser Family Foundation, “Establishing Health Insurance Exchanges: An Overview of State Efforts”; Eibner C, et al., “The Effects of the Affordable Care Act on Workers’ Health Insurance Coverage,” *NEJM*, 2010, 363, 1393-1395; Mercer, “Few employers planning to drop health plans after reform is in place, survey finds”; McKinsey & Company, “How US health care reform will affect employee benefits”; Robert Wood Johnson Foundation, “Employer-Sponsored Insurance under Health Reform: Reports of Its Demise Are Premature,” “Study: Spread of Consumer-directed health plans can reduce nation’s costs, but risks seen,” [www.washingtonpost.com](http://www.washingtonpost.com); Towers Watson “Health Care Changes Ahead Survey 2012”; Health Care Advisory Board interviews and analysis.

# Enabling a Defined-Contribution Approach

## Early Exchange Structure Allows Employers to Budget Contribution

### Transition to Defined Contribution Plan



Orion contributes \$125-\$350 per month toward coverage



Employee selects individual policy on exchange



# 10%

Reduction in premium costs due to switch



#### Case in Brief: Orion Corporation

- 70-employee residential services firm located in St. Paul, Minnesota
- Converted HDHP<sup>1</sup> to defined contribution plan managed by Minnesota-based Bloom Health

#### Payers Taking Notice



#### *Wall Street Journal*

"WellPoint, Non-Profits Invest in Private Insurance Exchange"

- WellPoint, Blue Cross Blue Shield of Michigan, and Health Care Service announce plans to acquire 78 percent share of Bloom Health
- Insurers plan to offer fully operational exchanges by 2013

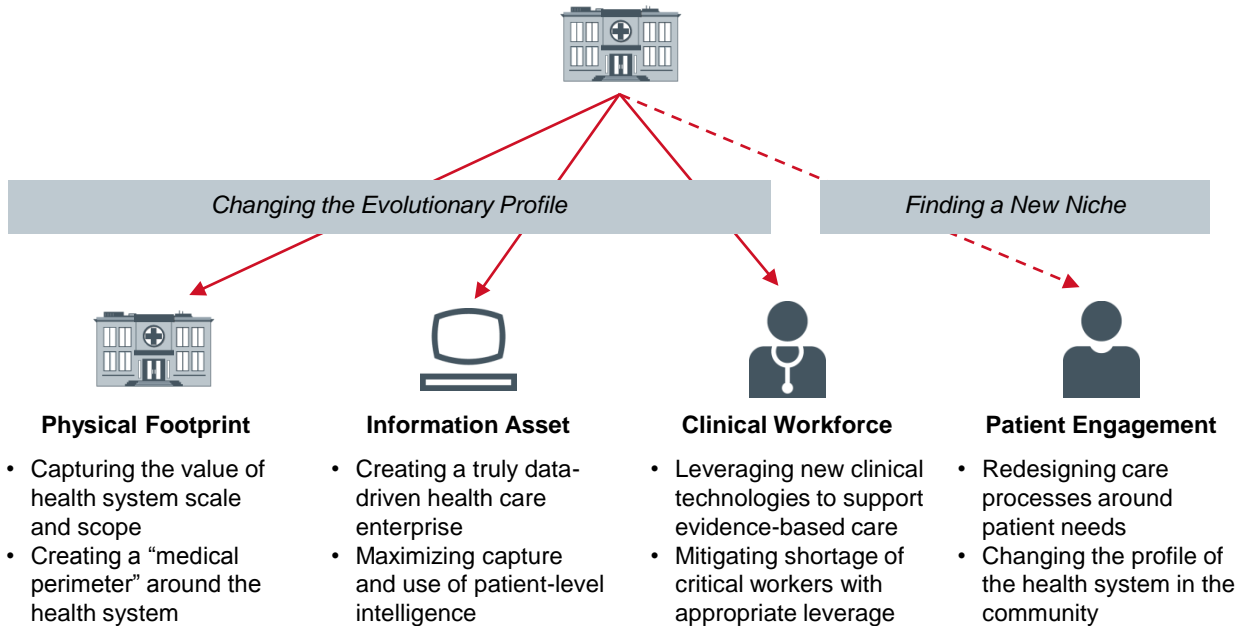
Source: Bloom Health, available at: [www.gobloomhealth.com](http://www.gobloomhealth.com), accessed September 21, 2011; Kamp J, "WellPoint, Non-Profits Invest in Private Insurance Exchange," Wall Street Journal, September 20, 2011; Health Care Advisory Board interviews and analysis.

1) High-Deductible Health Plan.

# Past the Point of Incremental Change

Pressure on Industry Requires New Operating Paradigm

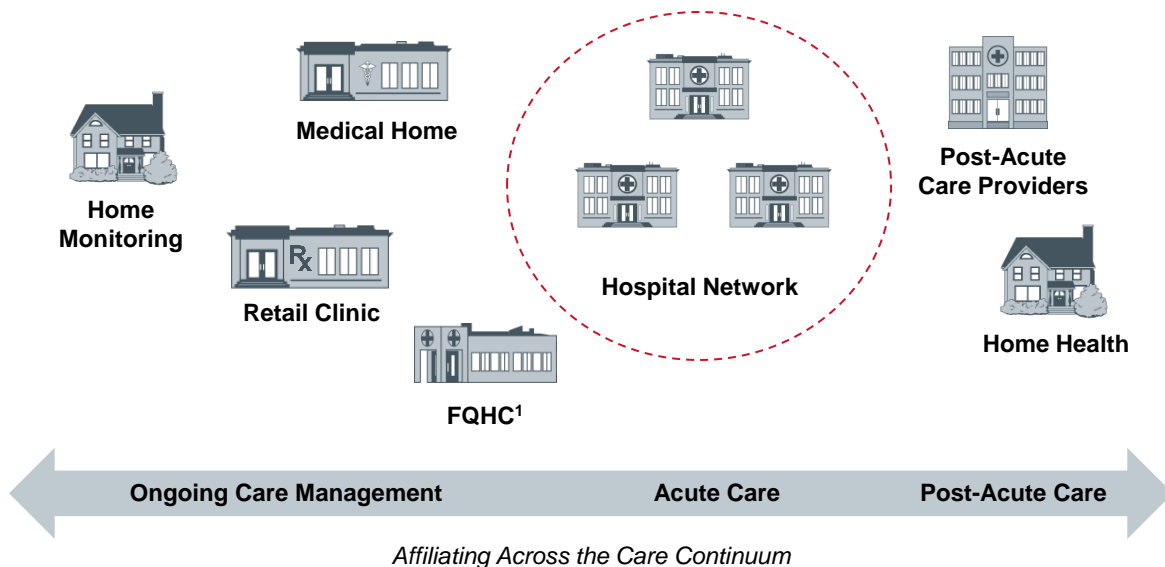
**Adapting to Meet the Challenges of the New Environment**



# Adopting a Patient-Centered Approach to Scale

Integrating Access Points, Full Continuum of Providers to Improve Care

## Extending the Scope of the Organization to Meet Patients' Needs



1) Federally Qualified Health Center.

# Looking Ahead to a Wired Health System

## Emerging Data Systems Change Outlook of Competitive Asset

### Today: Differentiate on Data Access



- Focus on data ownership
- Health system has possession of “the wires,” proprietary data
- Data analysis conducted in silos

### *Disruptive Technologies*



- Cloud Computing
- National Network
- Health Information Exchanges

### Future: Differentiate on Data-Informed Care Plan



- Data is prescriptive, predictive
- Focus on EHR<sup>1</sup> capability
- Compete in a world of greater transparency



### Physicians on the Fast Track

“Cloud-based technologies and PHRs<sup>1</sup> are potential examples of disruptive technologies in health IT. These types of technologies might allow the 80 percent of physicians who are non-digital to leapfrog some of the existing limitations of EHR systems directly into more modern technologies.”

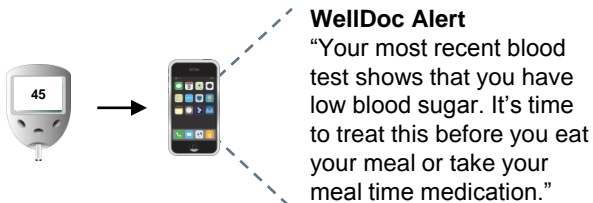
*Report to the President  
President's Council of Advisors on Science and Technology*

Source: Executive Office of the President, “Realizing the Full Potential of Health Information Technology to Improve Healthcare for Americans: The Path Forward,” available at: <http://www.whitehouse.gov/sites/default/files/microsites/ostp/pcast-health-it-report.pdf>, accessed April 26, 2011.; Health Care Advisory Board interviews and analysis.

# Enabling Constant Monitoring of Health Status

## Reminders Help Patient Stay on Track and Reinforce Care Plan

### Activation On the Go



### Advice Triage Across Multiple Sources

- Real-time biometric alerts via text message
- Longitudinal alerts and reminders via web portal
- Secure provider communication via e-mail



### Technology in Brief: WellDoc, Inc.

- Health care technology company based in Baltimore, Maryland
- Initial clinical trials showed successful reduction of HbA1c levels by 2.03 percent
- Mobile health coach device can be used with variety of patients; with or without physician participation
- Two-year, 225-patient effectiveness study completed January 2010; participants included University of Maryland, Care First Blue Cross Blue Shield, Sprint, LifeScan

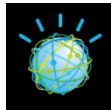
# From Jeopardy to Clinical Practice

## Rise of Watson and Smart Technology as Part of the Care Team

### Leveraging Advanced Computational Resources for Clinical Care



Clinical interaction reveals symptoms, physician forms preliminary diagnosis



Watson generates ranked differential diagnoses, treatment paths for physician consideration



Physician leverages the capabilities of Watson to confirm diagnosis, confidently pursue treatment plan



### Technology in Brief: IBM's Watson Supercomputer

- IBM designed a supercomputer with the computational ability to answer natural language questions in real time; expanding breadth of material to include medical content
- Medical diagnostic capabilities of Watson currently being tested at Columbia University; intent is to support physicians with real-time clinical information and ranked differential diagnoses
- University of Maryland physicians working to determine how Watson could best interact with medical providers to enhance care delivery

Source: Final Jeopardy! and the Future of Watson (video interview), available at: <http://www.ted.com/webcast/archive/event/ibmwatson>; Columbia University, "Watson computer's ability to diagnose illness tested," available at: <http://www.physorg.com/news/2011-03-watson-ability-illness.html>; Washington Technology, "IBM's Watson heads to medical school," available at: <http://washingtontechnology.com>; all accessed May 4, 2011.; Health Care Advisory Board interviews and analysis.

# Mitigating Shortage, Managing Health

## Longitudinal Care Management Needs Guide Staffing

### Patient at the Center, Providers at the Top of Their License



### Case in Brief: Dean Health System

- Integrated delivery system including a multispecialty clinic network and health plan, located in Madison, Wisconsin; business model focusing on value-based care has been a priority since 2004
- Undergoing significant primary care redesign; focus on growing primary care and becoming magnet institution for PCPs

1) Advanced practitioner, primarily physician assistant and nurse practitioner.

# A Reliable Model for High Cost Employee Care

## Innovators Unrestricted by the Current Delivery, Payment Models

### Iora Health Contracts Directly With Employers to Deliver Primary Care



Iora Health



Local Employer

- PCPs, contracted specialists provide care to employee population
- Employer pays fixed PMPM<sup>1</sup> fee for care, clinic reports outcomes at monthly meetings
- Iora physicians coordinate care with hospitalists; hospital provides data to Iora

“

### Putting the Patient First

“We’ve been worrying about the impact of our decisions on physicians and hospitals, but it’s time to worry about the impact on the patient. The hospital perspective is not our problem, it’s creative destruction.”

*Rushika Fernandopulle, MD  
Iora Health*



### Case in Brief: Iora Health

- Operating the Dartmouth Health Connect clinic for Dartmouth College in Hanover, New Hampshire and the Culinary Extra Clinic for the Culinary Health Fund in Las Vegas, Nevada
- Clinics manage top 10 percent of sickest patients using comprehensive, team-based approach
- Achieved 12.3 percent decrease in total spending for patients enrolled in 2009<sup>2</sup>

1) Per member per month.

2) 2009; relative to control group created using propensity matching; gross spending dropped 18%.

# Looking Ahead to a Decade (or More) of Change

## Entering an Era of “Accountable Care”

### Betting on a Provider-Driven Solution Set

#### Hospitals



- Consolidation and integration
- Continuum-wide care
- Efficiency and standardization

#### Payers



- *Public*—price cuts and risk shifts
- *Private*—risk-based contracting
- *All*—value-based payment models

#### Patients



Who’s “accountable”?

#### Doctors



- Group aggregation and employment
- Enhanced primary care practice
- Embedding IT to drive to EBM<sup>1</sup>

#### Employers



- Increased cost-sharing with employees
- Heavier emphasis on health management
- Defined (or no) contribution



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